

**DRAFT ANNUAL BUDGET
OF
GA-SEGONYANA LOCAL MUNICIPALITY**

**2012/13 TO 2014/15
MEDIUM TERM REVENUE AND EXPENDITURE
FORECASTS**

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PART 1 DRAFT ANNUAL BUDGET

1.3 Executive Summary

The application of sound financial management principles for the compilation of the Municipality's budget process is essential and critical to ensure that the Municipality remains financially viable and that municipal services provided are sustainably, economically and equitably to all communities.

The Municipality's collection rate is not satisfactory: Currently the municipality collects only in Kuruman town, Mothibstad and Wrenchville. The Municipality is not able to collect from ward 4-13 because those areas are rural and there is no billing system in place and also the areas are under the Chieftancy. Collection from Mothibstad residents still remains the Municipality's main challenge because Eskom is the provider of electricity at Mothibstad.

The Municipality has developed enhancement strategy to curb the increasing debt and to optimize the collection of debt owed by consumers.

For indigenous households, the threshold to qualify for equitable share is an income of less than R3 240 and two state pensioners in a household do qualify.

The main challenges experienced during the compilation of the 2012/13 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy as result of domestic strikes as well as increase in unemployment.
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality due to non payment from consumers;
- The increased cost of bulk electricity due to tariff increases from Eskom, which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no longer be affordable;
- Affordability of capital projects –
- The Municipality's ability to afford capital/borrowing to fund the aging infrastructure.

1.4 Operating Revenue framework

1.4 For Ga-Segonyana Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue enhancement strategy is built around the following key components:

Revenue generated from rates and service charges forms significant percentage of the Municipality' budget.

- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Reviewed the Credit Control and Debt Collection.

Operating grants amounts to R69 820 000 for the 2012/13 financial year.

Tariff-setting is very essential and forms strategic part of the compilation of the Municipality's budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality. Within this framework the Municipality has undertaken the tariff setting process as follows:

Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the Municipality's budgeting process. Assessments will be determined according the new valuation roll as per MPRA 2004. Market related valuations with only one tariff per category will be used to determine yearly rates payable. The categories will be as follows: Households; Business; Agriculture and State Own Property.

The following stipulations are highlighted in the Property Rates Policy:

All residential properties with a market value of less than the amount as annually determined by the municipality are exempted from paying rates. **For the 2012/13 financial year the maximum reduction is determined as R25 000.** The impermissible rates of R15 000 contemplated in terms of section 17(1) (h) of the Property Rates Act is included in the amount referred to above as annually determined by the municipality. The remaining R10 000 is an important part of the council's indigent policy and is aimed primarily at alleviating poverty.

Indigent owners and child headed families will receive a 100% rebate from payment of property tax subject to application.

The municipality's Property Rates Policy is compiled in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);

Proposed Water tariff

In terms of Circular No. 55: Municipalities are reminded to review the level and structure of their tariffs carefully, with a view to ensuring:

- Water tariffs are fully cost-reflective - including the cost of maintenance and renewal of purification plants and water networks and

- Water tariffs are structured to protect basic levels of service; and

- Water tariffs are designed to encourage efficient and sustainable consumption (e.g. through increasing block tariffs)

- If a municipality's water tariffs are not fully reflective, the municipality should develop a pricing strategy to phase-in the necessary tariff increases in manner that spreads the impact on consumers over a period of time. However, all municipalities should aim to have appropriately structured, cost-reflective water tariffs in place by 2014.

In 2011/12 it cost Municipality R8 to distribute water to consumer and the tariff for 2010/11 was R3.50 therefore the Municipality will take an approach of spreading the difference over the period of three years. A proposed tariff for water for 2012/13 financial year will be R7.00 Indigents households will receive free 6 (kl) of water per month.

Electricity tariff

Electricity tariff increases will be 5.5% for block 1(0-50k); 13.5% for block 2(51-350k);16% for block 3(351-400k) and 4(>600k) as approved by the National Electricity Regulator of South Africa (NERSA)with effect from 01 July 2012;

Other tariff

There will an increase of 6% on other charges based on the CPI/Inflation taking into account interest of poor households and ensuring the sustainability of the Municipality. See attached tariff schedule for the proposed tariff increase for 2012/13 financial year.

Table 2 is the summary of the main revenue source of the Municipality.

1.5 Operating Expenditure framework

The Municipality's expenditure framework for 2012/13 is informed by the following:

- Infrastructure master plan;
- Funding the budget over the medium term as informed by Section 18 and 19 of the MFMA;
- Capital projects
- Operational gains will be directed to funding the capital budget and core services
- For salaries, wages and allowances for officials, a provision of 7% increase is made

subject to the decision of the Bargaining Council. The same applies to medical aid, pension, insurance and other salary related contributions.

- For Section 56 and 57 Managers an increase of 7 % is made linked to a cost-of-living based on the market indicators which is not performance based. Reference: Government Gazette No. 29089 of 1 August 2006 Chapter 2 Section 7, Subsection 4.
- Remuneration packages for Councillors are according to the Government gazette Notice No. 34869, dated 14 December 2011 issued by the Minister of Local Government.
- Priority has been given to repairs and maintenance to provide for rapid growth of the Municipality as a result of mining activities. During the 2012/13 it was identified that the Municipality spent lots of money on repairs and maintenance due to aging infrastructure. A different approach was taken to reduce money spent on repairing old infrastructure to rather dispose them and to procure new service delivery machinery.
- Bulk purchases are directly informed by the purchase of electricity from Eskom. There is an increase of 16% for bulk purchases for electricity.
- The Municipality has budgeted R1 500 000 for Legal costs due to pending cases and possible litigation against the Municipality.
- Finance charges consist of primarily for the repayment of interest on long-term borrowing (cost of capital).
- Other expenditure comprises of various line items relating to the daily operations of the municipality
- Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.
- Aligned to the priority being given to preserving and maintaining the Municipality's current infrastructure, the 2012/13 budget and MTREF provide for extensive growth in the area of asset maintenance, as informed by the Municipality's infrastructure master plan.

1.6 Capital Expenditure

- Assets funded by operational budget amounts to R9,638,700.
- MIG projects amounts to R55,163,000.
- Capital projects which will finance through borrowings amounts to R62,420,000.

Table SA36 provides a detailed breakdown of capital projects for 2012/13 MREF.

1.7 Annual Budget Tables

These tables present the main budget tables as required in terms of section 18 of the Municipal Budget and Reporting Regulations. These tables set out the Municipality 2012/13 budget and MTRF.

PART 2 SUPPORTING DOCUMENTATION

2.1 Budget Process Overview

The Budget process is governed by legislation, in particular:

- Municipal Systems Act, as amended
- Municipal Finance Management Act
- Annual Division of Revenue Act
- Budget Formats Guidelines
- MFMA Circular 58 and 59
- Municipal Property Rates Act

In February the Departments were requested to prepare their budgets in line with the IDP. During March 2012, Management undertook an extensive process of interrogating the Budget proposals by different Departments as well as ensuring that the consolidated budget is aligned to the key priorities as encapsulated in the IDP.

Councilors were work-shopped on the 27th March 2012 on these two Strategic Plans. This has ensured maximum participation of our Honourable Councillors in compilation of these Plans so that upon completion, Councillors would be well informed what the two Plans entails, this will also make it easy for our Politicians to exercise their political oversight role since they would have been part of the whole process from the initial stages. Both the budget and IDP as so required by the MFMA was presented to the Mayor who in turn tabled them before Council on the 28 March 2012.

Within seven days after the approval of the budget and IDP, in terms of the MFMA, these two Strategic Plans will be advertised for 21 days for community inspection as a way of community participation.

Community Participation Process

Also as part of encouraging and ensuring public participation, as so required by relevant legislation, road shows will be held during the month of April 2012 in the thirteen wards to inter-alia:

- Get community inputs;
- Ensure a better understanding of community needs;
- Improve accountability and responsiveness to the needs of our local community at large;
- To create a platform where Government is accountable to its Constituency, thereby entrenching the Batho- Pele Principles; and
- Make the IDP and Budget accessible to the residents of Ga-Segonyana;

2.2 Alignment of Budget with IDP

IDP is aligned to the Six KPA's for Local Government which is also expressed in the Vision and Mission statement of the municipality.

2.3 Measurable Performance Objectives and Indicators

The information will be submitted to the Mayor by 18 June 2012.

2.4 Budget related policies

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

The budget related policies such as Indigent (Appendix A), Tariff Policy and Tariff Schedule (Appendix B), Credit control and Debt Collection (Appendix C) policies have been reviewed and amended accordingly. The threshold for the indigent will remain at R3 240.

- **Property Rates policy (Appendix D)**

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

- **Budget and Virement Policy (Appendix E)**

The Budget and Virement Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the City's system of delegations.

- **Bulk Contribution Policy (Appendix F)**

This policy provides a framework for the determination of bulk service contributions on an equitable basis thereby allowing tariffs to be set at a more affordable level and shortening the period of recovery of the capital cost of bulk infrastructure, thus reducing long-term debt, improving the municipality's balance sheet and its credit rating and further enabling the municipality to develop a capital reserve for new and replacement bulk infrastructure.

The following policies have been reviewed and amended accordingly:

- **Asset Management Policy (Appendix G)**

The amendment to the policy is intended to meet requirements GRAP. The main objective of the policy is to ensure that assets of the Municipality are properly managed and accounted for.

The GRAP framework is to **ensure appropriate financial treatment** of the assets. **The requirements of the new accounting standards included:**

- The compilation of assets registers covering all assets controlled by the Municipality.
- Accounting treatment for the acquisition, disposal, recording and depreciation / amortization of assets.
- The standards to which financial records must be maintained

- **Supply Chain Policy (Appendix H)**

The amendment to this policy was to be in line with Supply Chain regulation which came into effect as from 07th December 2011.

2.5 Budget Assumptions

- External factors

Due to the recent month of the domestic strikes the domestic economy has lost momentum and unemployment is on the rise that resulted on the customer's ability to pay their municipal bills. This resulted in declining cash flows of the Municipality as well increase in outstanding debt.

- The interim valuation roll must be implemented according to the MPRA 2004. However, the first R25 000 on Residential property per household will be exempted and the indigent qualifies for exemption subject to application.
- Price movements of bulk purchase – electricity tariff is increased by 16% as approved by NERSA.
- Plans and budgets of different spheres of governments have been taken into consideration when the 2012/13 budget was compiled.
- Collection rate: Currently the municipality collects only in Kuruman town and Wrenchville, there is a challenge to collect at Mothibistad because ESKOM supplier of electricity in Mothibistad.

2.6 Funding the budget

This gives an indication of the Municipality's overall budget as well as sources of funding.

SUMMARY: INCOME AND EXPENDITURE

The following summary of the operational budget shows the income and expenditure under the different subheadings:

	Budget 2012/13 Rand	% of Total Operating Expenditure
Income	192,352,999	
Expenditure		
Employee related costs	50,558,051	26.72%
Remuneration of Councillors	6,204,903	3.28%
Debt impairment	302,100	0.16%
Depreciation	13,017,500	6.88%
Finance charges	10,237,275	5.341%
Audits costs	3,288,100	1.74%
Legal costs	1,500,000	0.79%
Insurance	3,098,650	1.64%
DWA- Sedibeng	9,528,000	5.04%
Bulk Purchases - Electricity	50,372,250	26.62%
Security Services	1,759,620	0.93%
Delegations	916,804	0.48%
General expenses	13,130,667	6.94%
Repairs and maintenance	20,587,460	10.88%
New connections	504,390	0.274%
Total Operating Expenditure	189,194,420	
Operating Surplus	3,158,579	
Capital expenditure funded from operational budget	9,638,700	
Surplus/(Deficit)	(6,480,121)	

GRANTS

The following grants are reflected in the budget as gazetted in the Division of Revenue Act:

Operational Budget

National Government:

- Equitable share R 65 874 000
- DWA R 1 481 000
- MSIG R 800 000
- FMG R 1 500 000
- EPWP R 1 000 000

Northern Cape Province:

- Library Development R 646 000

Capital Budget

- MIG R 55 163 000

Total Grants **R126 464 000**

EQUITABLE SHARE

The equitable share of R 65 874 000 is allocated as follows:

<u>DESCRIPTION ITEM</u>	<u>VOTE NUMBER</u>	<u>AMOUNT</u>
Council	020	R 8 783 943
Water	380	R 13 324 416
Electricity	410	R 25 395 633
Sewerage	420	R 5 069 783
Cleansing	480	R 8 456 129
Sanitation	485	R 3 704 837

2.7 Disclosure on Salaries, Allowances and Benefits

Remuneration package for section 56 & 57 managers

Description	Municipal Manager	Financial services manager	Corporate Admin Manager	Technical services manager	Community Service Manager
Package	977 584.41	782 067.28	782 067.28	782 067.28	782 067.28
TOTAL	977 584.41	782 067.28	782 067.28	782 067.28	782 067.28

REMUNERATION PACKAGES FOR COUNCILLORS

MAYOR (CHAIRPERSON)	2011/12
Total Remuneration	611 895-00
Article 5 Salaries	458 921-00
Article 10(b) Cellphone	18 840-00
Article 6(a) Travelling allowance	152 974-00
Total salary per annum	630 735-00
Monthly	52 561-25
Benefits:	TOTAL
Article 11(a) Pension 15%	68 838-15
Article 11(b) Medical Aid	17 280-00
Total maximum per annum	86 118-15
Monthly	7 176-51

SPEAKER	2011/12
Total Remuneration	489 516
Article 5 Salaries	367 137-00
Article 10(b) Cellphone	18 840-00
Article 6(a) Travelling allowance	122 379-0
Total salary per annum	508 356-00
Monthly	42 363-00
Benefits:	
Article 11 (a) Pension 15%	55 070-55
Article 11(b) Medical Aid	17 280-00
Total maximum per annum	72 350-55
Monthly	6 029-00

EXECUTIVE COMMITTEE	2011/12
Total Remuneration	252 407-00
Article 8 Salaries	189 305-25
Article 10(c) Cellphones	11 748-00
Article 9(a) Travelling allowance	63 101-75
Total salary per annum	264 155-00
Monthly	22 012-92
Benefits:	
Article 11(a) Pension 15%	28 395-79
Article 11(b) Medical Aid	17 280-00
Total maximum per annum	45 675.79
Monthly	3 806.32

OTHER PART-TIME COUNCILLORS	2011/12
Total Remuneration	183 569-00
Article 8 Salaries	137 677-00
Article 10 (c) Cellphones	11 748-00
Article 9(a) Travelling allowance	45 892-00
Total salary per annum	195 317-00
Monthly	16 276-42
Benefits:	
Article 11(a) Pension 15%	20 651-55
Article 11(b) Medical Aid	17 280-00
Total maximum per annum	37 931.55
Monthly	3 160-96

Note: Benefits are included in the remuneration package – for all Councillors.

2.8 Cash Flow Management

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with international standards of good financial management practice and also improves understandability for councillors and management. Some specific features include:

- Clear separation of receipts and payments within each cash flow category;
- Clear separation of capital and operating receipts from government, which also enables cash from „Ratepayers and other“ to be provide for

as cash inflow based on actual performance. In other words the *actual collection rate* of billed revenue, and

- Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt).

2.9 Contracts having future budgetary implications

In terms of the Municipality's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the Bid Evaluation and Adjudication Committees must obtain formal financial comments from Budget and Treasury Office.

2.10 Legislation Compliance Status

The promulgation of the Municipal Finance Management Act 56 of 2003) has without doubt, enhanced efficiency and control measures to local government in terms of budgeting monitoring and accounting of public funds. The MFMA has created a profound effect on the local government operations that required transformation in financial discipline and planning processes. The budget preparation for 2012/13 has surpassed most of these key requirements.

The MFMA has created clear standards of operating for local government that complies or conforms to the International Standards of reporting. The municipality's reporting to Provincial Treasury has been substantially complied with. The monthly reports and quarterly returns have been submitted on time to both National and Provincial Treasury.

In its endeavors to comply with the MFMA, Council has an approved Supply Chain Management Policy. The policy was developed as per the guidelines provided by the National Treasury, so that it can achieve the prescribed results of regulating the Supply Chain Management environment within the municipality.

2.11 CAPITAL EXPENDITURE DETAILS

MIG THREE YEAR PLAN

	2011/2012	2012/2013	2013/2014
ITEM	Amount	Amount	Amount
Batlharos water reticulation phase 5	-		7,310,635.00
Bankhara-Bodulong outflow sewer	R 4,849,258.00		-
Maruping - Vergenoeg road	-	-	-
Batlharos-Vergenoeg	-	-	-
Kuruman waste water treatment (Upgrading of Kuruman sewer pump station)	-	-	-
Mothibistad sewer connection to Kuruman	-	-	-
Magojaneng: Water network	-	-	-
Water project for Seeding	-	R 0.00	-
Magojaneng and Seeding water ext.	-	R 4,047,040.00	-
Pietbos network Water	-	-	-
Vergenoeg water feasibility	-	-	-
Maruping water feasibility	R 239,056.34	-	-
Geelboom network Water	-	-	-
Kagung Water	R 3,530,668.09	R 185,824.64	-
Vergenoeg VIP	-	-	-
Landfill sites	-	-	-
Highmast lights ward 1-9	R 5,932,468.69	R 6,851,884.62	2,215,646.69

Mapoteng water supply	R 0.00	-	-
Mapoteng water ext.	-	4,529,823.22	
Mothibistad Phase1	-	-	-
Mothibistad Phase 2	R 9,627,982.68	-	-
Mothibistad Phase 3	R 5,426,684.05	R 10,000,000.00	5,715,824.35
VIP ward 7	R 150,000.00		-
Ditshoswaneng water supply	R 3,515,384.49	185,020.24	-
Seven miles	R 5,058,407.33	-	0.00
Community Hall: Kagung	R 181,381.13	-	-
Community Hall: Ncweng	R 181,381.13	-	-
Community Hall: Batlharos	R 181,381.13	-	-
Vergenoeg water reticulation	R 440,107.00	R 6,786,381.52	R 357,177.98
Maruping bulk water supply	-	R 5,583,093.07	4,975,233.71
Gantatelang water	R 87,783.50		
Bankhara-Bodulong water	-	7,895,684.65	415,562.35
Upgrading of internal road: Mothibistad			8,000,000.00
Upgrading of internal road: Lokaleng		R 3,058,657.44	1,312,342.56
Upgrading of Bulk Water Supply, Network Extensions, Stand Pipes and Refurbishment: Ward 7		-	17,858,278.00
Upgrading of internal road: Batlharos	R 4,825,386.45	R 4,639,590.60	498,156.69
PMU	R 1,246,670.00	R 1,400,000.00	1,600,000.00
TOTAL VALUE OF PROJECTS	R 45,474,000.00	R 55,163,000.00	50,258,857.33
APPROVED MIG ALLOCATION	R 45,474,000.00	R 55,163,000.00	55,333,000.00

DEP	VO TE		Loan	Peri od	Inter est Rate	Interest	Redempt ion	Total	TOTAL DEBT END OF TERM
Fire	180	4 x 4 Vehicles	700,000.00	5	7%	49,000.00	140,000.00	189,000.00	945,000.00
Total			700,000.00			49,000.00	140,000.00	189,000.00	945,000.00

Sewer	420								
		Aerators Kuruman	950,000.00	20	7%	66,500.00	47,500.00	114,000.00	2,280,000.00
		Total	950,000.00			66,500.00	47,500.00	114,000.00	2,280,000.00

Water	380	Boreholes Bankhara/Bodulong	200,000.00	5	7%	14,000.00	40,000.00	54,000.00	270,000.00
		Chlorine Pump - W/ville reservoir	200,000.00	5	7%	14,000.00	40,000.00	54,000.00	270,000.00
		Total	400,000.00			28,000.00	80,000.00	108,000.00	540,000.00

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Electricity	410	Upgrading of Mun substation	50,000,000.00	20	7%	3,500,000.00	2,500,000.00	6,000,000.00	120,000,000.00
		Upgrade mini substation	2,000,000.00	5	7%	140,000.00	400,000.00	540,000.00	2,700,000.00
		Refurbishment of low voltage line	2,000,000.00	5	7%	140,000.00	400,000.00	540,000.00	2,700,000.00
		Installation of kickerpost	1,000,000.00	5	7%	70,000.00	200,000.00	270,000.00	1,350,000.00
	Total		55,000,000.00			3,850,000.00	3,500,000.00	7,350,000.00	126,750,000.00

Traffic	150	5X Bakkies	800,000	5	10%	80,000.00	160,000.00	240,000.00	1,200,000.00
		1x Bakkie (road marking)	200,000	5	10%	20,000.00	40,000.00	60,000.00	300,000.00
	Total		1,000,000			100,000.00	200,000.00	300,000.00	1,500,000.00

Parks and Recreation	355	TRACTOR & TRAILER	450,000	5	7%	31,500.00	90,000.00	121,500.00	607,500.00
		1x Bakkie	160,000	5	10%	16,000.00	32,000.00	48,000.00	240,000.00
		Compactor Truck	1,100,000	5	7%	77,000.00	220,000.00	297,000.00	1,485,000.00
		Total	1,710,000			124,500.00	342,000.00	466,500.00	2,332,500.00

Cleasin g	480	New sewer truck	1,200,000.00	5	7%	84,000.00	240,000.00	324,000.00	1,620,000.00
		Suction Truck	800,000	5	7%	56,000.00	160,000.00	216,000.00	1,080,000.00
		Total	2,000,000			140,000	400,000	540,000	2,700,000

Cemetries

320	TLB For Graves	500,000	5	7%	35,000.00	100,000.00	135,000.00	675,000.00
	1X Bakkie	160,000	5	7%	11,200.00	32,000.00	43,200.00	216,000.00
	Total	660,000			46,200	132,000	178,200	891,000
	TOTAL CAPITAL BUDGET	62,420,000.00			4,404,200.00	4,841,500.00	9,245,700.00	137,938,500.00

